

competitive discipline into the transport market to remove the need for rigorous Commission regulation of LEC transport pricing. In order to demonstrate the limited effect of resale and sharing upon LECs' pricing of DS1 and DS3 through-routed transport, CompTel analyzed the Chicago LATA, one of the highest-volume LATAs in the U.S. CompTel's analysis (see Attachment B) demonstrates that if all third-tier IXC's aggregated their traffic in the Chicago LATA, they still would not justify even one DS3. Continuing this analysis, if all third-tier IXC's aggregated their through-routed capacity traffic with all of Sprint's capacity, only 7% of their total switched transport traffic could be routed at DS3 speed. Even if every IXC other than AT&T aggregated all of their traffic onto one network, only 36% of their total transport traffic could utilize DS3 capacity in the LATA.³⁰

This analysis demonstrates that resale and sharing among second- and third-tier IXC's can never be relied upon to prevent or reduce materially LEC incentives to discriminate in favor of AT&T in the pricing of through-routed transport. The reason, of course, is that AT&T is still so much larger than all of its rivals combined that AT&T effectively wields monopsony power in

³⁰ This analysis assumed the following market shares in terms of traffic volume: AT&T 65%; MCI 15%; Sprint 10%; and the typical third-tier IXC 1.5%. Further, the analysis assumed that an IXC would use a 9000/MOU loading factor for through-routed capacity; that an IXC would use a DS1 once it achieved an 80% fill rate; and that an IXC would use a DS3 once it had traffic for 24 DS1s. Finally, pending the conclusion of Phase II in CC Docket No. 91-141, IXC's cannot aggregate tandem-switched traffic onto through-routed DS1 or DS3 services. CompTel submits that these assumptions are in line with previous findings by the Commission as well as reasonable engineering assumptions.

this market segment.³¹ And if resale and sharing cannot effectively restrain discriminatory pricing in one of the highest-volume LATAs in the U.S., they certainly will be incapable of restraining such pricing in lower-volume LATAs throughout the country. Moreover, it should be emphasized that CompTel's analysis assumed arguendo that all third-tier IXCs could in fact aggregate their traffic to take maximum advantage of theoretical resale and sharing opportunities in the Chicago LATA. In fact, such aggregation would require them to operate, in effect, a single network using the same POP (or at least the same SWC), an obviously unrealistic scenario absent corporate consolidation among second- and third-tier IXCs. Therefore, while the Commission should embrace its pro-resale policy for the switched transport market segment, the Commission can ascribe no particular influence to resale and sharing in the setting of through-routed transport prices by LECs.

IV. THE FCC SHOULD DIRECT LECS TO CONDUCT EMPIRICAL
INCREMENTAL COST STUDIES BEFORE IMPOSING TANDEM
COSTS UPON TANDEM-SWITCHED CUSTOMERS

The Report and Order, 7 FCC Rcd at 7019, required tandem-switched transport users to pay 20% of Central Office Equipment ("COE") Category 2 costs through a tandem switching charge. The Commission noted that COE Category 2 costs result

³¹ For the same reason, the potential development of competitive alternatives for through-routed transport will not exert a substantial restraining hand upon LEC pricing. There simply are not enough minutes of switched transport traffic from second- and third-tier IXCs to reduce appreciably LEC incentives to discriminate in favor of AT&T.

from the operation of Parts 32, 36 and 69. Id. at 7018. Based upon certain ex parte statements, the Commission estimated that only 10% of COE Category 2 costs are related to SS7 technology. Id. at 7019. The Commission stopped short of finding that the other 90% was attributable to interstate access users of the tandem switch, but it did impose 20% of the COE Category 2 revenue requirement upon tandem-switched transport users. The Commission chose the 20% figure ostensibly "to ease the impact of a rate structure change on small IXCs." Id.

With all due respect, CompTel submits that the Commission's analysis of tandem costs misses the point. There is virtual unanimity in the record that the allocation rules under Parts 32, 36 and 69 are seriously flawed and entail a material misallocation of costs to switched transport.³² While CompTel agrees that tandem-switched transport users should be responsible for the cost consequences of their use of the tandem, there is no relationship whatsoever between those cost consequences and the COE Category 2 revenue requirement. The Commission might just as well select a number out of thin air as ascribe any portion of COE Category 2 costs to tandem-switched transport users. The Commission should affirmatively direct the LECs to undertake empirical incremental cost studies so that an economic tandem

³² E.g., Comments of CompTel at 9-14; Reply Comments of CompTel at 35-39; Comments of Ameritech at 36; Comments of Southwestern Bell at 15-22; Comments of WilTel at 7-12. Parties have previously demonstrated to the Commission that the imposition of any uneconomic tandem costs directly upon tandem-switched users will undermine interexchange competition and network efficiency. E.g., Comments of CompTel at 23-25.

switching charge may be accurately determined.³³ There is more than enough time between now and the effective date of the Commission's permanent switched transport rules (November 1, 1995) for such studies to be conducted.

V. CONCLUSION

CompTel submits that the Commission should adopt permanent switched transport rules as specified herein and in CompTel's previous submissions in this docket.

Respectfully submitted,

COMPETITIVE TELECOMMUNICATIONS
ASSOCIATION

By: 

Robert J. Aamo
Michael R. Wack
Reed Smith Shaw & McClay
1200 18th Street, N.W.
Washington, D.C. 20036
(202) 457-6100

Genevieve Morelli
Vice President and
General Counsel
Competitive Telecommunications
Association
1140 Connecticut Avenue, N.W.
Suite 220
Washington, D.C. 20036
(202) 296-6650

Its Attorneys

February 1, 1993

³³ See CompTel Petition for Reconsideration and Clarification at 4, 12-14; Reply Comments of CompTel at 18.